

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name S and H Volunteer Fire Department	County Wexford
Fiscal Year End 12/31/2007	Opinion Date 03/07/2008	Date Audit Report Submitted to State April 7, 2008	

We affirm that:

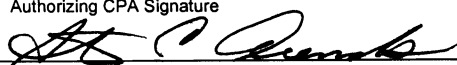
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Communication of Significant Deficiencies; Communication of Audit Findings	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Steven C. Arends, C.P.A.	License Number 1101013211

S AND H VOLUNTEER FIRE DEPARTMENT
SLAGLE TOWNSHIP AND VILLAGE OF HARRIETTA
HARRIETTA, MICHIGAN
DECEMBER 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

S AND H VOLUNTEER FIRE DEPARTMENT
SLAGLE TOWNSHIP AND VILLAGE OF HARRIETTA
HARRIETTA, MICHIGAN

DECEMBER 31, 2007

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PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

March 7, 2008

INDEPENDENT AUDITORS' REPORT

To the Fire Board
S and H Volunteer Fire Department
Slagle Township and Village of Harrietta
Harrietta, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the S and H Volunteer Fire Department, Slagle Township and Village of Harrietta, Harrietta, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Fire Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fire Department's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the S and H Volunteer Fire Department, Slagle Township and Village of Harrietta, Harrietta, Michigan, as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise S and H Volunteer Fire Department, Slagle Township and Village of Harrietta, Harrietta, Michigan's basic financial statements. The individual fund financial statements, and other information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

S and H Volunteer Fire Department is a joint venture volunteer fire department supported by the Village of Harrietta and the Township of Slagle that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the S and H Volunteer Fire Department board's discussion and analysis of the financial results for the fiscal year ended December 31, 2007.

Financial Highlights

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$61,200. All of this may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$28,607.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire Department are governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus is on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department’s financial position over time. The Net Assets of the Fire Department are \$61,200 at December 31, 2007, meaning the Fire Department’s assets were greater than its liabilities by this amount.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

S and H Volunteer Fire Department
Net Assets as of December 31, 2007

	Governmental Activities
Assets	
Current Assets	\$ 28,607
Non Current Assets	
Capital Assets	149,411
Less: Accumulated Depreciation	116,818
Total Non Current Assets	32,593
Total Assets	\$ 61,200
Liabilities	\$ 0
Net Assets	
Invested in Capital Assets	32,593
Unrestricted	28,607
Total Net Assets	61,200
Total Liabilities and Net Assets	\$ 61,200

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

At the end of the current fiscal year, the Fire Department is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

S and H Volunteer Fire Department
Change in Net Assets
for the Fiscal Year Ended December 31, 2007

	<u>Governmental Activities</u>
Revenues	
Charges for Services	\$ 1,250
General Revenues	
Contributions from Local Units	17,000
Unrestricted Investment Earnings	629
Other Revenues	<u>7,145</u>
Total Revenues	26,024
Expenses	
Public Safety	<u>33,332</u>
Change in Net Assets	(7,308)
NET ASSETS - Beginning of Year	<u>68,508</u>
NET ASSETS - End of Year	<u><u>\$ 61,200</u></u>

Governmental Activities

During the fiscal year ended December 31, 2007, the Fire Department's net assets decreased by \$7,308 or 10.67% in the governmental funds. The majority of this decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of S and H Volunteer Fire Department comes from contributions from the Village of Harrietta and the Township of Slagle. The next largest part of revenue comes from fund-raisers and private donations. Each unit contributes an amount based on taxable value in each unit to support the Fire Authority. Each township levied .50 mills for fire protection. This revenue is shown as contributions from local units.

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$33,332 in fiscal year 2007 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$8,163. Depreciation expense added another \$6,185.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

Financial Analysis of the Government's Funds

Governmental Activities The focus of S and H Volunteer Fire Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – At the end of the current fiscal year, S and H Volunteer Fire Department's general fund reported an ending fund balance of \$28,607. All of this amount constitutes unreserved fund balance. The fund balance of the Fire Department's general fund decreased by \$6,938 during the current fiscal year.

General Fund Budgetary Highlights

During the year, individual expenditure lines were amended to agree with actual expenditures. In total, Public Safety expenditures were more than appropriations by \$4,762.

Capital Assets and Debt Administration

Capital Assets. The Fire Department's investment in capital assets for governmental activities as of December 31, 2007 amounted to \$32,593 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually, plus all land. A summary of capital asset categories is illustrated below:

S and H Volunteer Fire Department Capital Assets as of December 31, 2007	
	Governmental Activities
Buildings	\$ 30,810
Equipment	118,601
	<hr/> 149,411
Less Accumulated Depreciation	<hr/> 116,818
Net Capital Assets	<hr/> <hr/> \$ 32,593

Economic Condition and Outlook

The Fire Department is expected to be supported by the Village and Township in the future.

A fire millage was once again levied for the 2006 tax roll. The mills to be levied for the 2007 tax roll for fire protection are expected to be similar to 2006.

S AND H VOLUNTEER FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2007

These factors were considered in preparing the Fire Department's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact S and H Volunteer Fire Department at 505 S. Davis Street, Harrietta, Michigan 49638.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 28,607
<u>CAPITAL ASSETS</u>		
Buildings and Improvements		30,810
Equipment		118,601
		<u>149,411</u>
Less Accumulated Depreciation		<u>116,818</u>
Total Capital Assets		<u>32,593</u>
TOTAL ASSETS		<u><u>\$ 61,200</u></u>
	<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>		<u>\$ 0</u>
<u>NET ASSETS</u>		
Invested in Capital Assets		32,593
Unrestricted		<u>28,607</u>
Total Net Assets		<u>61,200</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 61,200</u></u>

The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

STATEMENT OF ACTIVITIES
DECEMBER 31, 2007

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		PROGRAM REVENUES			
			OPERATING	CAPITAL	
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR	GRANTS AND	GRANTS AND	TOTALS
		SERVICES	CONTRIBUTIONS	CONTRIBUTIONS	
<hr/>					
PRIMARY GOVERNMENT					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 33,332	\$ 1,250	\$ 0	\$ 0	\$ (32,082)
<hr/>					
<u>GENERAL REVENUES</u>					
	Contributions from Local Units				17,000
	Unrestricted Investment Earnings				629
	Other Revenues				7,145
					<hr/>
	Total General Revenues				24,774
					<hr/>
	Change in Net Assets				(7,308)
	<u>NET ASSETS</u> - Beginning of Year				68,508
					<hr/>
	<u>NET ASSETS</u> - End of Year				\$ 61,200

The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

BALANCE SHEET
DECEMBER 31, 2007

ASSETS

Cash	\$ 28,607
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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<u>FUND BALANCE</u>	
Undesignated	<u>28,607</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 28,607</u>
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The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Total Fund Balance for Governmental Funds	\$ 28,607
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings and Improvements	30,810	
Equipment	118,601	
Accumulated Depreciation	(116,818)	32,593

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 61,200</u>
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The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2007

REVENUES

Local Sources

Contributions from Local Units	\$ 17,000
Charges for Services	1,250
Interest and Rents	629
Other Revenues	<u>7,145</u>

Total Revenues	26,024
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EXPENDITURES

Public Safety	<u>32,962</u>
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Excess (Deficiency) of Revenues Over Expenditures	(6,938)
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<u>FUND BALANCE</u> - Beginning of Year	<u>35,545</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 28,607</u></u>
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The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2007

Net change in Fund Balance Total Governmental Funds	\$ (6,938)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(6,185)
Capital Outlay	<u>5,815</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (7,308)</u></u>
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The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

S and H Volunteer Fire Department is a joint venture volunteer fire authority supported by the Village of Harrietta and the Township of Slagle. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire Authority has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

The government-wide focus is more on the sustainability of the Fire Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

S and H Volunteer Fire Department reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the Fire Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

- I. The Fire Authority Board is limited to investments authorized by PA 20 of 1943 and has authorized the Fire Authority Treasurer to invest funds as follows:
- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - b. In certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the S and H Volunteer Fire Department Board at the Board's organizational meeting after each regular election of board members.
 - c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - d. In repurchase agreements consisting of instruments listed in subdivision (a).
 - e. In bankers' acceptances of United States banks.
 - f. In investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
 - g. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

All receivables are shown net of an allowance for uncollectibles. Fire Authority revenues are recognized when they become both measurable and available for use to finance Fire Authority operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2007 year, the S and H Volunteer Fire Department received as aid \$3,000 from the Village of Harrietta, \$14,000 from Slagle Township. In addition, the Fire Authority received \$3,236 and \$1,380 from fund-raising activities and private contributions, respectively.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year plus all land. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Vehicles	10
Equipment	5-10

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on January 10, 2007, or as amended by the Fire Authority Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Fire Authority Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Authority because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, expenditures of \$32,962 exceeded appropriations of \$28,200 by \$4,762 in the General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Fire Authority's deposits are all on deposit with Wexford Community Credit Union, Cadillac, Michigan.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

Investment rate risk. The Fire Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Fire Authority's cash requirement.

Foreign currency risk. The Fire Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Fire Authority will minimize Custodial Credit Risk; which is the risk of loss due to the failure of the security issuer or backer, by; limiting investing to the types of securities listed in the Fire Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Fire Authority will do business in accordance with the Fire Authority's investment policy.

Concentration of credit risk. The Fire Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Fire Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2007, none of the government's bank balance of \$27,107 was exposed to custodial credit risk because none of it was uninsured or uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fire Authority's investments are categorized to give an indication of the level of risk assumed by the Fire Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Fire Authority or the Fire Authority's agent in the Fire Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Fire Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Fire Authority's name. At year end, the Fire Authority held no investments.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

B. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Buildings and Improvements	\$ 30,810	\$ 0	\$ 0	\$ 30,810
Equipment	112,786	5,815	0	118,601
Total Capital assets, being depreciated	143,596	5,815	0	149,411
Less accumulated depreciation for:				
Buildings and Improvements	23,533	784	0	24,317
Equipment	87,100	5,401	0	92,501
Total accumulated depreciation	110,633	6,185	0	116,818
Total Capital assets, being depreciated, net	32,963	(370)	0	32,593
Governmental activities Capital assets, net	\$ 32,963	\$ (370)	\$ 0	\$ 32,593

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public Safety	<u>\$ 6,185</u>
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Construction Commitments:

The government has no outstanding construction commitments as of December 31, 2007.

C. Long-Term Debt

There is no long-term debt.

IV. OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 23,100	\$ 23,100	\$ 17,000
Charges for Services	1,000	1,000	1,250
Interest and Rents	500	500	629
Other Revenues	3,600	3,600	7,145
Total Revenues	28,200	28,200	26,024
<u>EXPENDITURES</u>			
Public Safety	28,200	28,200	32,962
Excess (Deficiency) of Revenues Over Expenditures	0	0	(6,938)
<u>FUND BALANCE</u> - Beginning of Year	5,089	5,089	35,545
<u>FUND BALANCE</u> - End of Year	\$ 5,089	\$ 5,089	\$ 28,607

The accompanying notes are an integral part of the financial statements.

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

BALANCE SHEET
DECEMBER 31, 2007

ASSETS

Cash	
Commercial Account	\$ 9,237
Savings Account	<u>19,370</u>
 TOTAL ASSETS	 \$ <u><u>28,607</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Unreserved	<u>28,607</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u><u>28,607</u></u>

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Contributions from Local Units		
Slagle Township	\$ 14,000	\$ 14,000
Village of Harrietta	3,100	3,000
Boon Township	6,000	0
Charges for Services		
Fire Runs	1,000	1,250
Interest and Rents		
Interest Earnings	500	629
Other Revenues		
Sale of Equipment	0	1,906
Fund-raising	1,500	3,236
Donations	2,100	1,380
Refunds and Rebates	0	623
Total Revenues	<u>28,200</u>	<u>26,024</u>
<u>EXPENDITURES</u>		
Public Safety		
Office Supplies	400	400
Travel and Education	4,800	5,460
Public Utilities		
Telephone	425	464
Electricity	1,000	657
Fuel Oil	2,500	2,644
Gas and Oil	800	1,153
Repair and Maintenance		
Building	500	173
Equipment	1,500	1,988
Building Supplies	150	0
Insurance and Workers' Compensation	9,000	8,163
Legal and Accounting	550	580
Uniforms	700	2,206
Fund-raising and Miscellaneous	500	1,180

S AND H VOLUNTEER FIRE DEPARTMENT
HARRIETTA, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
Capital Outlay		
Equipment	5,375	7,894
Total Expenditures	28,200	32,962
Excess (Deficiency) of Revenues Over Expenditures	0	(6,938)
<u>FUND BALANCE</u> - Beginning of Year	5,089	35,545
<u>FUND BALANCE</u> - End of Year	\$ 5,089	\$ 28,607

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

March 7, 2008

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Fire Board
S & H Volunteer Fire Department
Slagle Township and Village of Harrietta
Harrietta, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of S & H Volunteer Fire Department, Slagle Township and Village of Harrietta, Harrietta, Michigan as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America we considered S & H Volunteer Fire Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Fire Department and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

March 7, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Fire Board
S & H Volunteer Fire Department
Slagle Township and Village of Harrietta
Harrietta, Michigan

We have audited the financial statements of the governmental activities and each major fund of S & H Volunteer Fire Department for the year ended December 31, 2007, and have issued our report thereon dated March 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by S & H Volunteer Fire Department are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 7, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of S & H Volunteer Fire Department for the year ended December 31, 2007, we noted the following list of items which we feel deserve comment:

Condition of Accounting Records

The accounting records were again found to be in good order and well organized. We would like to congratulate the accounting personnel for doing a good job and thank them for their efforts in accumulating the information needed for the audit.

Budgeting

Several General Government accounts had expenditures in excess of appropriations. The budget should be amended during the year before incurring expenditures in excess of appropriations.

Credit Card Policy

S & H Volunteer Fire Department has a credit card with no written policy. According to P.A. 266 of 1995, they are required to have an applicable credit card policy.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.